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ABSTRACT

This paper presents results of a study designed to determine whether each university in Florida's State University System (SUS) was being treated fairly by the funding methodologies used by the Legislature and the Board of Regents (BOR). The paper provides an examination of the generational formulas used by the Legislature and the BOR that result in the appropriation of the SUS operating budget; an analysis of the allocation process for the nine universities and special units; and a review of the capital outlay budget for the System. Recommendations are presented according to the three major components of the study: (1) a comparison of the design and execution of the legislative and SUS funding processes; (2) an analysis of the equity of the New Funding Methodology (adopted by BOR in 1988 and subsequently implemented in part) as an allocation technique; and (3) an analysis of the equity of the fixed capital outlay budgeting process. The appendix contains a presentation by the Office of the Auditor General on the Consultant's Report. (GLR)

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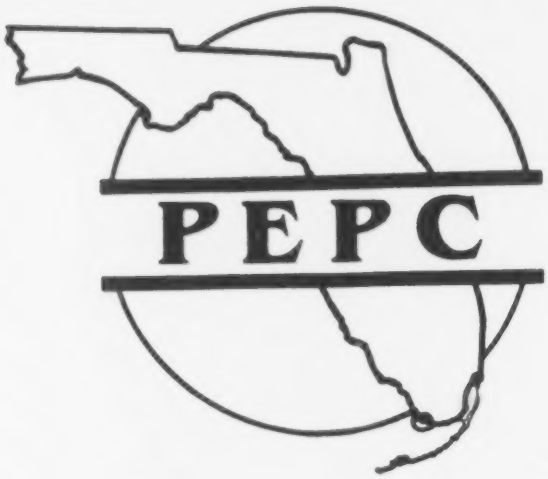

STATE UNIVERSITY SYSTEM FUNDING PROCESS

HE 025 356

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Report and Recommendations of the Florida Postsecondary Education Planning Commission

1992 - REPORT 1

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The Postsecondary Education Planning Commission, initially created by executive order in 1980 and subsequently given statutory authority (SS 240.145 and 240.147, Florida Statutes), serves as a citizen board to coordinate the efforts of postsecondary institutions and provide independent policy analyses and recommendations to the State Board of Education and the Legislature. The Commission is composed of 11 members of the general public and one full-time student registered at a postsecondary education institution in Florida. Members are appointed by the Governor with the approval of three members of the State Board of Education and subject to confirmation by the Senate.

The major responsibility of the Commission is preparing and updating every five years a master plan for postsecondary education. The enabling legislation provides that the Plan "shall include consideration of the promotion of quality, fundamental educational goals, programmatic access, needs for remedial education, regional and state economic development, international education programs, demographic patterns, student demand for programs, needs of particular subgroups of the population, implementation of innovative educational techniques and technology, and the requirements of the labor market. The capacity of existing programs, in both public and independent institutions, to respond to identified needs shall be evaluated and a plan shall be developed to respond efficiently to unmet needs."

Other responsibilities include recommending to the State Board of Education program contracts with independent institutions; advising the State Board regarding the need for and location of new programs, branch campuses and centers of public postsecondary education institutions; reviewing public postsecondary education budget requests for compliance with the State Master Plan; and periodically evaluating the State's 28 regional coordinating councils for vocational education and adult general education.

Further information about the Commission, its publications, meetings and other activities may be obtained from the Commission office, 231 Collins Building, Department of Education, Tallahassee, Florida, 32399-0400; telephone (904) 488-7894.

POSTSECONDARY EDUCATION PLANNING COMMISSION

STATE UNIVERSITY SYSTEM FUNDING PROCESS

Prepared in response to Specific Appropriation 577A
of the
1991 General Appropriations Act
Chapter 91-193, Laws of Florida

1992 - Report 1

January 1992

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EXECUTIVE SUMMARY

A state's funding for higher education sets forth the state's major policy preferences for its public colleges and universities. In Florida, the annual level of state funding for the State University System (SUS) originates from the Board of Regents' budget request and is ultimately determined by the Legislature's appropriation, the Governor's approval of the state budget and the Board of Regents' allocation process. At each of these steps, the funding process annually involves a complex set of activities with competing interests and issues, and has been subject to varying degrees of satisfaction from year to year for the past two decades.

This study was commissioned by the Legislature to determine whether each university in the SUS was being treated fairly by the funding methodologies used by the Legislature and the Board of Regents (BOR). To address the issue of funding equity, the Commission examined the generational formulas used by the Legislature and the BOR that result in the appropriation of the SUS operating budget, analyzed the allocation process for the nine universities and special units, and reviewed the capital outlay budget for the System.

Design Of Legislative And SUS Formulas

- There are important differences in the funding appropriation formulas used by the Legislature and the Board of Regents that are a result of their differing priorities for the State University System. The legislative formula places greater priority on undergraduate education and student support services while the BOR formula (New Funding Methodology) places greater priority on graduate education and research activities.

Recommendations:

1. The Legislature should convene a Task Force consisting of representatives of the Board Of Regents budget staff, legislative appropriations staff, university budget staff, Governor's budget staff and Postsecondary Education Planning Commission staff to develop a consensus funding formula for the State University System to be submitted to the Legislature for its approval.

NOTE: Reference is made to a new consensus funding formula in most of the remaining recommendations. The recommendations, however, address technical adjustments which should be implemented immediately in the current formula, and incorporated in the new consensus formula when it is adopted.

2. The new consensus formula should express long-term normative staffing relationships and not change on an annual basis.

3. The new consensus formula should expand the concept of discipline differentiation in the Instruction & Research formula. The discipline groupings should be based on national norms and documented differences in instruction and research staffing practices in the disciplines.

4. Once the new consensus formula is adopted, the State University System should modify its expenditure analysis reporting categories to conform with the formula categories.

5. As part of the consensus formula development process, the funding needs of all major support program components should be based on a formula approach.

6. The consensus formula should include faculty salary averages and other funding rates that are based on achieving the state's goals for maintaining a competitive university system.

7. The new consensus formula development process should continue to provide for detailed program components for major program activities. However, the consensus formula should combine funding components which attract relatively small proportions of total funding and which are allocated using similar variables, e.g., FTE students.

Equity Of The SUS Allocation Process

- The Commission considers a funding process for the E & G budget of the SUS to be equitable in its treatment of individual universities if the resulting allocation:

  - implements policy decisions that are considered to be equitable,

  - recognizes known and material differences in the costs of carrying out the assigned mission of each university, and

  - provides each university with the same relative capacity to fulfill its assigned mission.

- The premise of the New Funding Methodology (NFM) is that its formulas would lead to an equitable allocation if fully implemented. Since the SUS has not fully implemented the NFM formulas due to the lack of full funding, the SUS budget staff testified before the Commission in 1991 that an equitable allocation still has not been achieved. Commission analysis attempted to determine whether the NFM could lead to an equitable allocation if it were fully implemented.

- In an analysis of the 1990-91 SUS appropriation, the Commission found that the gross funding levels per FTE student varied across the universities by more than 20 percent over or under the System average. To understand the reasons for these variations, the Commission examined the impact that the 18 different components in the New Funding Methodology had on each of the nine universities. Of the 18 NFM components, the "hold harmless" provision had more impact on the allocation than any other single feature of the funding process. For example, approximately 15 percent of Florida A&M University's (FAMU) funding in the 1990-91 allocation appeared to be attributed to the "hold harmless" provision.

- Funding decisions by the Board Of Regents are based on planned enrollments rather than actual enrollments, and the Commission found that some of the concern about funding equity is based on whether planned or actual enrollments are used. In 1990-91, all nine universities exceeded their enrollment plans. Three universities were more than 10 percent over their plans, with FAMU surpassing its plan by the largest amount (20 percent).

- The Commission analyzed the budgeting processes and funding levels of the agriculture and pharmacy programs, which have been funded from the E & G allocation to FAMU and through separate appropriations to a University of Florida special unit. The Commission found that funding for programs which have had special unit status was higher than that for similar programs in the E & G budget. The differences in funding levels appear to be the cumulative results of different institutional missions and program roles, BOR formula policy differences and, in certain instances, greater appropriations support by the Legislature.

Recommendations:

8. Policies supporting the new consensus formula should continue to respond to the need for funding stability, but major adjustments in the existing hold harmless policy, as well as future policies, should be based on a three-year phase-out approach.

9. The current enrollment planning process should be continued and funding should be based on planned enrollments. Although the withholding of financial support has not prevented over-enrollment, such a penalty may be the most effective device available for preventing gross violations of the enrollment planning process.

10. The new consensus formula should be zero-based and restore all formula-generated I&R positions.

11. The criteria for what constitutes a special, non-enrollment-related funding requirement need to be tightened and funding should be provided only for unique, large-scale activities. In particular, the criteria should address the relative magnitude of the special need in comparison to the university's resource base and whether state-level designation is appropriate. Positions related to special allocations that are to be discontinued should be considered in the establishment of new student-faculty ratios.

12. The new consensus formula should continue to differentiate faculty salary averages among the universities. The initial values in the consensus formula should be recalibrated using external comparative data for similar institutions across the nation, and the values should be reviewed periodically.

13. The new consensus formula should define "high-risk" students and recognize their needs in both the instruction and student services components. All universities should be eligible to receive these supplements in proportion to their service to "high-risk" students. This recommendation is not intended to expand the number of universities eligible to provide college preparatory instruction beyond those currently authorized in statute.

14. With the elimination of special unit budget entities, the agriculture and health-related instructional programs at the University of Florida and the University of South Florida should be funded at similar rates to comparable instructional programs in the Educational & General budget. In the development of the consensus formula, however, careful attention should be directed to the assignment of these disciplines into appropriate funding categories.

15. The new consensus formula for the library component should specifically include provisions to identify resource needs related to different academic missions.

16. The new consensus formula should consolidate the number of separate sub-elements where possible. Separate categories that are created should be consistent with the lump sum flexibility components and should represent a significant dollar volume of resources.

17. The new consensus formula should seek to include as few non-formula components as possible. At the same time, nonetheless, the new formula should contain new formula categories that recognize significant and costly mission differences.

Equity Of The Fixed Capital Outlay Budgeting Process

- To analyze the equity of capital outlay allocations, the Commission examined both the dollar amount allocated to each university and the number of square feet of space per

student and by type of space at each university. The Commission found considerable variation of net assignable square feet per FTE student in total and by type of space, and found that net assignable square feet varied among the universities from 30 percent below to 18 percent above the System average. The differences appear to be attributed to the age of the university, the mission of the university and the enrollment size of the campus.

- The Commission's analysis found little correlation between recent capital outlay allocations for new construction and major renovation and unmet facilities needs.

Recommendations:

18. The Board of Regents should place greater emphasis on the use of objective space planning guidelines and formulas in the development of its capital outlay budgets for the State University System.

19. The State University System should revise its space planning standards to take into account the changes in program delivery methods that have taken place over the past 20 years.

20. The Board of Regents should develop a long-range program to provide space for the projected growth in enrollment demand in the State University System. The program should require efficient space planning standards, consider the relative priority between instructional space and research and support space, and address the relative priority between new construction and renovation.

21. Capital Improvement Trust Fund fees should continue to be reallocated to the institutions where they are collected.

Conclusions

Separate funding formulas exist for the E & G budget of the SUS that emphasize the dissimilar goals of the Board of Regents and the Legislature for the System. A new consensus funding formula is needed for the SUS that will incorporate the use of long-term normative standards and funding goals for the System, the grouping of disciplines that are based on documented differences in instruction and research staffing practices in the disciplines, and the funding needs of all major support program components.

There are at least 18 components in the BOR's New Funding Methodology (NFM) that account for considerable variance in funding per FTE student across the nine universities. Although the actual allocation was not totally based on the NFM, the 1990-91 allocation analyzed by the Commission found that Florida A & M University (FAMU) had an adjusted allocation per planned enrollment based on formula calculations that was 16.8 percent above the System average while the University of Central Florida (UCF) had an adjusted allocation that was 7.1 percent below the System average. The analysis further found that a significant portion of FAMU's funding . (approximately 15 percent) was attributed to the "hold harmless" provision and was not based either on formula generation or other special allocations.

The issue of funding equity was also examined by an analysis of funding variations within the SUS over a ten year period. Funding per FTE student for each of the nine major budget components (e.g., instruction, library, etc.) and the total for each university and for the System average was calculated for 1981, 1986 and 1991, and separate calculations were performed using both planned and actual FTE enrollments. The analysis found that FAMU and Florida Atlantic University were funded above the System average for each of the

three years for both enrollment calculations. The University of Central Florida was the least funded and was the furthest below the System average for each of the three years for both enrollment calculations.

In an analysis of the equity of funding for comparable programs provided through the special unit and the E & G funding processes, the Commission found that funding for programs with special unit status at the University of Florida was higher than that for similar programs in the E & G budget at FAMU. The differences in funding levels appear to be the cumulative results of different institution missions and program roles, BOR formula policy differences and, in certain instances, greater appropriations support by the Legislature.

In its examination of the equity of capital outlay allocations, the Commission found considerable variation across the SUS of net quantitative square feet per FTE student in total and by type of space, and little relation of allocations for new construction and renovations to unmet facilities needs. More objective space planning formulas are needed, as well as a long-range program that will plan for the additional space needed to support the projected enrollment growth in the SUS.

I. INTRODUCTION

Legislative Charge

Specific Appropriation 577A of the 1991 General Appropriations Act directed the Postsecondary Education Planning Commission to study the funding policies and procedures of the State University System. Proviso language directed the Commission to:

conduct a study of the process used by the Board of Regents for developing its legislative budget request as well as the process used by the Board of Regents for allocating appropriations among the universities. As a part of this study the Postsecondary Education Planning Commission shall evaluate the legislative funding formulas as well as the various formulas within the Board of Regents new funding methodology. These generational formulas shall be compared to actual expenditures. The study shall include an assessment of the extent to which funds are allocated on an equitable basis for comparable programs across the State University System, including the special unit entities. The study shall also assess the extent to which the need for facilities is being addressed on an equitable basis for each university. To the extent that necessary supporting data are available, the study shall examine allocation patterns and practices over a period of years. All supporting information provided as a result of this study shall be reviewed by the Office of the Auditor General.

Commission Activities

The Commission's 1982 ***Master Plan for Florida Postsecondary Education*** and the 1988 ***Update*** both addressed the financing of Florida postsecondary education and called for a funding process that would direct resources to improve quality. The ***Master Plan*** described an approach to program budgeting that is built upon a strong system of program evaluation and budgeting procedures that accommodate the results of program reviews. Recommendations called for a more effective process for the determination of resource needs, for the allocation of resources to postsecondary education and for the evaluation of the effectiveness of those resources. While budgeting and evaluation were emphasized, the need for additional revenue in order to adequately fund public postsecondary education was also viewed as critical to the State.

To direct this study, the Commission Chairman appointed a Planning Committee under the chairmanship of Mr. James Talley that included Commission members Dr. Robert Mautz, Mr. Tom Heath, Mr. Ivie Burch, Mr. Clyde Hobby and Ms. Kristie Kirschner. To facilitate the legislative charge, the Commission contracted with the national education consulting firm MGT of America, Inc. to conduct an extensive review of the operating and capital funding policies and procedures for the State University System including the analysis of major conceptual and measurement approaches for the determination of funding equity within the System. The consultant report was reviewed by the Office of the Auditor General. The auditor general's report, which appears in Appendix A, expressed concern with the use of faculty activity reports in expenditure analyses which are aggregated and used in the allocation process. The report concluded, however, that the reliance on faculty activity reports, although imprecise, would not significantly alter the results of the evaluations and the conclusions drawn by the consultant.

The study consultant and Commission staff visited all nine universities to interview campus budget and administrative staff on the issues of the study. Considerable data and technical assistance were provided by the

Board of Regents budget/finance staff and the appropriations staff of the Legislature. Seven public meetings of the Planning Committee were held between July 1991 and January 1992, were well attended and included extensive discussion among the Committee members, the study consultant and state level and institutional representatives.

The final consultant report was submitted to the Planning Committee in December and guided the Committee in the development of its final report to the full Commission. The full consultant report may be obtained upon request from the Commission office, Florida Education Center, Tallahassee, Florida 32399.

II. ISSUES AND RECOMMENDATIONS

A state's funding for higher education sets forth the state's major policy preferences for its public colleges and universities. In Florida, the annual level of state funding for the State University System (SUS) originates from the Board of Regents' budget request and is ultimately determined by the Legislature's appropriation, the Governor's approval of the state budget and the Board of Regents' allocation process. At each of these steps, the funding process annually involves a complex set of activities with competing interests and issues, and has been subject to varying degrees of satisfaction from year to year for the past two decades.

This study was commissioned by the Legislature to determine whether each university in the SUS was being treated fairly by the funding methodologies used by the Legislature and the Board of Regents (BOR). To address the issue of funding equity, the Commission examined the generational formulas used by the Legislature and the BOR that result in the appropriation of the SUS operating budget, analyzed the allocation process for the nine universities and special units, and reviewed the capital outlay budget for the System.

This report represents a collaborative effort of the study consultant and the Commission and sets forth recommendations designed to make the funding process less complex and more equitable. The report presents the verbatim issue synopses, documentation and recommendations of the consultant. Unless noted otherwise, the consultant's recommendations were adopted by the Commission. The recommendations are grouped according to the three major components of the study:

1) a comparison of the design and execution of the legislative and SUS funding processes;

2) an analysis of the equity of the New Funding Methodology (adopted by the BOR in 1988 and subsequently implemented in part) as an allocation technique;

3) an analysis of the equity of the fixed capital outlay budgeting process.

Design Of Legislative And SUS Formulas

Summary Point

- There are important differences in the funding appropriation formulas used by the Legislature and the Board of Regents that are a result of their differing priorities for the State University System. The legislative formula places greater priority on undergraduate education and student support services while the BOR formula (New Funding Methodology) places greater priority on graduate education and research activities.

Continuing Use of Separate Formula Designs

Synopsis of Issue: Although the Legislature directed the SUS to develop what is now known as the New Funding Methodology (NFM), the Legislature has failed to specifically adopt, reject or amend the NFM recommendations. The SUS develops its appropriations request using concepts from the NFM, then the Legislature uses a variant of the 1956 Brumbaugh formula to evaluate the request, and finally the SUS uses a combination of both the NFM and the legislative formula approach to allocate resources. The use of different formula bases impairs communication about both the current

budget situation and the request. For instance, the legislative and BOR staff often can not agree on how many academic positions have been appropriated to the SUS.

Documentation: In their testimony to the Commission, legislative and SUS budget personnel confirmed that different formula structures are being used. Our analysis shows that the number of positions generated by the two Instruction and Research (I & R) formulas, using actual 1990-91 enrollments, differed by more than 400 academic positions and 100 I&R support positions.

Consultant Recommendation: The Legislature and SUS should adopt a new, common formula approach (hereafter referred to in this document for convenience as the "consensus formula") for use in the appropriation request. Given the different purposes of a funding formula at different phases in the budget cycle, the allocation formula should be somewhat more detailed than the request formula, but retain the same overall structure.

Commission Recommendation:

1. The Legislature should convene a Task Force consisting of representatives of the Board Of Regents budget staff, legislative appropriations staff, university budget staff, Governor's budget staff and Postsecondary Education Planning Commission staff to develop a consensus funding formula for the State University System to be submitted to the Legislature for its approval.

NOTE: Reference is made to a new consensus funding formula in most of the remaining recommendations. The recommendations, however, address technical adjustments which should be implemented immediately in the current formula, and incorporated in the new consensus formula when it is adopted.

Alignment of Formula Factors with Actual Experience

Synopsis of Issue: Various factors in the budget formulas, e.g., the student-faculty staffing ratios, bear little resemblance to actual resource utilization patterns. On one hand, the lack of reality in the staffing ratios undermines confidence in the formula and can contribute to perceptions of inequity in the treatment of individual universities. But on the other hand, some of the formula factors were intended to represent legislative priorities. The key issue is whether the formula should represent long-term funding goals and standards or should fluctuate in response to campus spending practices. Neither the NFM or the legislative funding process are consistent in this regard, partly relying on long-term normative standards and partly on annual updates of recent experience.

Documentation: Of the nine program components in the NFM, three have formulas based on long-term normative standards and the remaining six components are recomputed annually based on recent expenditure rates. Comparisons of academic positions by level show that the legislative formula for I&R, the formula component that most consistently has been based on long-term norms, generates more positions for undergraduate education (a legislative priority) and fewer for graduate instruction and research than the NFM. Past experience, as reported in the SUS expenditure analysis, typically shows that the actual number of positions by instructional level and function is somewhere in between the two formula-generated amounts.

Consultant Recommendation: The new consensus formula should express long-term normative staffing relationships and not change on an annual basis. The initial norms, however, should be based on actual experience (prior to recent budget reductions) while still permitting special exceptions to

reflect judgement about what is required for quality programs and plans to respond to broad legislative direction.

Commission Recommendation:

2. The new consensus formula should express long-term normative staffing relationships and not change on an annual basis.

Assignment of Individual Disciplines Among the High, Average and Low Intensity Discipline Groupings

Synopsis of Issue: The NFM combines 32 disciplines into three broad groupings to achieve a more simple formula presentation. The three groupings were selected to represent the "intensity" of instruction. Two issues arise in developing aggregate discipline categories. The first issue is whether only three groupings are adequate to reflect the great diversity of the program offerings. The second issue, which would apply regardless of the number of categories, is whether the individual disciplines have been assigned to the most appropriate category.

Documentation: Results of a survey by SREB of funding practices in its 15-member states show that higher education funding formulas typically have more than three discipline groupings, with 10-20 groupings being most common when all disciplines are not listed individually. Using 1989-90 expenditure analysis results, our comparison of actual academic staffing ratios shows that 12 of the 32 disciplines (37%) have ratios that more closely match a different intensity grouping than the one to which they are assigned under the NFM.

Consultant/Commission Recommendation:

3. The new consensus formula should expand the concept of discipline differentiation in the Instruction & Research formula. The discipline groupings should be based on national norms and documented differences in instruction and research staffing practices in the disciplines.

Development of a System to Compare Formula Recommended and Actual Student-Faculty Ratios at the Graduate Level

Synopsis of Issue: Both the legislative and NFM formulas recognize four levels of instruction: lower, upper, graduate classroom and graduate thesis/dissertation. Legislative staff have expressed concern that the NFM staffing ratios do not reflect either legislative priority or actual practice, especially at the graduate level. The annual expenditure analysis is the primary tool through which the SUS can monitor differences between actual and formula staffing rates. Although the expenditure analysis also has four instructional levels, its graduate categories are graduate I and graduate II (which roughly correspond to masters and doctoral-level instruction) rather than graduate classroom and thesis/dissertation. The difference in reporting categories prevents verification of whether formula differences at the graduate level are justified.

Documentation: Accurate student-faculty ratios at the graduate level are important to ensure equity since the thesis/dissertation element in the instructional formula provides about 2.5 times more funding per credit hour than graduate classroom instruction. Further, nearly 70 percent of all thesis/dissertation funding is allocated to only two universities.

Consultant/Commission Recommendation:

4. Once the new consensus formula is adopted, the State University System should modify its expenditure analysis reporting categories to conform with the formula categories.

Formula Treatment of Support Program Components

Synopsis of Issue: In addition to their differences in the I&R program component, the legislative and NFM formulas vary in their treatment of the support program components. In some cases, the long-term staffing ratios and current year funding rates for the formula factors vary, e.g., the ratios for libraries and for plant operations and maintenance. As with the I&R formula situation, the difference in approaches contributes to disagreement and confusion about what has been funded and what is required for the request year. In other cases, the legislative approach simply is not based on the NFM formula but instead considers incremental needs from one year to the next, e.g., the processes for the administrative support and for the student services components. The absence of formula approaches may result in inadequate attention to the funding needs of the support programs.

Documentation: Testimony of legislative and SUS budget staff identified those components where different practices are used to assess the funding needs of support areas. Longitudinal analyses developed by the universities illustrate how funding levels for various support functions have not kept pace with the growth in workload or price level increases over the past decade. Further, their analyses indicate that funding in the support areas has not maintained a proportional relationship with funding for the primary program components.

Consultant/Commission Recommendation:

5. As part of the consensus formula development process, the funding needs of all major support program components should be based on a formula approach.

Adequacy of Funding for a Competitive University System

Synopsis of Issue: Over the past decade or more, the state has a made significant commitment towards developing and maintaining a nationally competitive university system. In 1987, for instance, Florida's national ranking in support of its universities had increased to 6th among the fifty states in state and local appropriations per FTE student, compared to 34th in 1979. The combination of the state's tax revenue shortfalls and the rapid enrollment growth in the SUS over the past two years, however, has caused per-student funding to drop and has renewed concerns about the quality of the universities. Neither the legislative formula nor the NFM explicitly incorporate a method for maintaining nationally competitive funding levels for the state's universities.

Documentation: Analyses prepared by the SUS staff show that total state appropriations (general revenue and lottery) per FTE student have dropped by about 18 percent over the past two years. Other SUS analyses show that faculty salary averages are losing their competitiveness with respect to salaries in other states.

Consultant/Commission Recommendation:

6. The consensus formula should include faculty salary averages and other funding rates that are based on achieving the state's goals for maintaining a competitive university system.

Impact of Lump-Sum Flexibility on the Funding Process

Synopsis of Issue: The 1991 legislative session granted much greater authority to the Board of Regents to allocate funds among program components and across budgetary units in the SUS. Under the new lump sum flexibility provisions, the SUS is accountable to the Legislature for only two broad program components in the former E&G budget entity: (1) instruction and research and (2) university support programs. During a transitional period, however, the Regents still use the nine former program components for allocating and monitoring the appropriation. Use of these same nine program components are an implicit feature of the NFM. With the newly gained lump-sum flexibility, some SUS budget personnel question whether the original program components still have utility in a formula funding process.

Documentation: Formulas in other states with complete lump sum flexibility use detailed components, e.g., library and plant, to justify the budget request. These states also use detailed formulas to assure an equitable allocation. Analyses show that some of the NFM funding components involve insignificant dollar amounts and range in size from less than one-tenth of 1 percent to more than one-half of the E&G budget.

Consultant/Commission Recommendation:

7. The new consensus formula development process should continue to provide for detailed program components for major program activities. However, the consensus formula should combine funding components which attract relatively small proportions of total funding and which are allocated using similar variables, e.g., FTE students.

Equity Of The SUS Allocation Process

Summary Points

- The Commission considers a funding process for the E & G budget of the SUS to be equitable in its treatment of individual universities if the resulting allocation:
  - implements policy decisions that are considered to be equitable,
  - recognizes known and material differences in the costs of carrying out the assigned mission of each university, and
  - provides each university with the same relative capacity to fulfill its assigned mission.
- The premise of the New Funding Methodology (NFM) is that its formulas would lead to an equitable allocation if fully implemented. Since the SUS has not fully implemented the NFM formulas due to the lack of full funding, the SUS budget staff testified before the Commission in 1991 that an equitable allocation still has not been achieved. Commission analysis attempted to determine whether the NFM could lead to an equitable allocation if it were fully implemented.
- In an analysis of the 1990-91 SUS appropriation, the Commission found that the gross funding levels per FTE student varied across the universities by more than 20 percent over or under the System average. To understand the reasons for these variations, the Commission examined the impact that the 18 different components in the New Funding Methodology had on each of the nine universities. Of the 18 NFM components, the "hold harmless" provision had more impact on the allocation than any other single feature of the funding process. For example,

approximately 15 percent of Florida A&M University's (FAMU) funding in the 1990-91 allocation appeared to be attributed to the "hold harmless" provision.

- Funding decisions by the Board Of Regents are based on planned enrollments rather than actual enrollments, and the Commission found that some of the concern about funding equity is based on whether planned or actual enrollments are used. In 1990-91, all nine universities exceeded their enrollment plans. Three universities were more than 10 percent over their plans, with FAMU surpassing its plan by the largest amount (20 percent).

- The Commission analyzed the budgeting processes and funding levels of the agriculture and pharmacy programs, which have been funded from the E & G allocation to FAMU and through separate appropriations to University of Florida special units. The Commission found that funding for programs which have had special unit status was higher than that for similar programs in the E & G budget. The differences in funding levels appear to be the cumulative results of different institution missions and program roles, BOR formula policy differences and, in certain instances, greater appropriations support by the Legislature.

Hold Harmless Policy

Synopsis of Issue: When the SUS was developing the NFM, it became apparent that the full and immediate implementation of the formula recommendations would create a significant level of financial disruption for at least one of the universities (FAMU). Recognizing that stability of funding, as well as funding equity, was a desirable characteristic for any funding methodology to possess, the SUS recommended that the NFM include a "hold harmless" provision. Due to the limited amount of new funding that has been appropriated since the NFM was adopted and the extent that the NFM would redistribute funding among the universities, the hold harmless provision has been much more significant in recent allocations than the formula components of the NFM. At issue is how much stability should be afforded at the expense of creating inequities for other universities. Also at issue is whether funding stability guarantees should be for an indefinite period or be limited to a certain phase-out period.

Documentation: Analyses show that a significant portion of FAMU's funding in 1990-91 could not be based on either formula generation or other special allocations. At least 15 percent of its allocation probably can be attributed to the hold harmless provisions of the NFM.

Consultant Recommendation: Policies supporting the new consensus formula should continue to respond to the need for funding stability, but major adjustments in funding should be based on a three-year phase-out approach.

Commission Recommendation:

8. Policies supporting the new consensus formula should continue to respond to the need for funding stability, but major adjustments in the existing hold harmless policy, as well as future policies, should be based on a three-year phase-out approach.

Variances Between Planned and Actual Enrollments

Synopsis of Issue: Beginning in the early 1980s, funding decisions began to be made on the basis of "planned enrollment" rather than the actual number of students that would be served. Enrollment plans are intended to communicate to the universities the need to preserve quality rather than to compete for

enrollment growth. The enrollment planning process has evolved over the years to provide direction for where (both locations and programs/levels) changes in enrollment levels should occur. UF, for instance, was authorized by the Legislature to reduce 1,500 lower division FTE without loss of funding. Universities face many difficulties in matching their actual enrollments with the plan (e.g., the articulation agreement guarantees access regardless of the plan, and the fact that admissions decisions are made before the final enrollment plan is adopted). Also, enrollment plans have not been universally accepted by the universities due both to their desire to respond to the growth in student demand and the aspirations of some universities to grow. By not providing funding for students beyond the planned levels, the Legislature and BOR penalize the universities for violating state enrollment growth policy. Unfortunately, students rather than administrators feel the brunt of the penalties since they must endure larger class sizes and fewer support services than their SUS peers.

Documentation: Analyses show that all nine universities exceeded their enrollment plans for 1990-91. Three universities were more than 10 percent over their target (one was 20%). Overall, the nine universities had 6.4 percent of their combined enrollments unfunded.

Consultant Recommendation: The concepts behind the enrollment planning process need to be re-examined in light of the growth pressures facing the university system. Penalties for exceeding the planned target, other than withholding financial support, should be adopted.

Commission Recommendation:

9. The current enrollment planning process should be continued and funding should be based on planned enrollments. Although the withholding of financial support has not prevented over-enrollment, such a penalty may be the most effective device available for preventing gross violations of the enrollment planning process.

Realignment of I&R Formula Positions with Actual or Planned Enrollments

Synopsis of Issue: When the enrollment planning policies were first implemented in the early 1980s, several universities exceeded their targets beyond an acceptable corridor of variance. To penalize these institutions, the appropriation bill contained proviso that prevented those universities from receiving funding for this unauthorized enrollment increment in subsequent years. The enrollment plans were adjusted upward to match the actual enrollments but no additional funds were provided. Since then, the formula has provided funding for further enrollment growth but the increment of growth in the early 1980s has never been funded. Other universities lost enrollment during this same period. Their planned enrollment levels were reduced to actual levels without the loss of funding, yet subsequent growth has attracted new funding. As a result, current planned enrollments for several of the universities are either over or under-funded in comparison to the NFM student-faculty ratios.

Documentation: A simulation of the NFM using planned enrollments shows that some universities are underfunded by as much as 5 percent of their formula-generated positions due to past administration of the enrollment plan.

Consultant Recommendation: In coordination with review of the hold harmless policy and the overall enrollment planning concept, the new consensus formula should be zero-based and restore all formula-generated I&R positions.

Commission Recommendation:

10. The new consensus formula should be zero-based and restore all formula-generated Instruction and Research positions.

Rationale for Appropriation/Allocation of Non-Enrollment Positions

Synopsis of Issue: Over the years, a significant number of academic and support positions and dollars have been appropriated and allocated to the universities above and beyond the formula-generated levels. The purposes for these resources are varied, but include maintaining major research centers, establishing the quality improvement program, providing start-up funds for new programs, and a host of minor issues. The common rationale for these funding actions is that the enrollment formula did not recognize a special need.

Documentation: Overall, non-enrollment positions accounted for over 17 percent of all academic positions in 1990-91. Of the 1,276 non-enrollment-related academic positions in the SUS, 430 are categorized with institutes and centers, 639 are funded for quality improvement efforts, 43 are for technical adjustments, and 165 are for short-term program development. Nearly two-thirds of the special position line items are for small increments (e.g., five or fewer academic positions) and represent only about 1 percent of the total positions at the universities.

Consultant/Commission Recommendation:

11. The criteria for what constitutes a special, non-enrollment-related funding requirement need to be tightened and funding should be provided only for unique, large-scale activities. In particular, the criteria should address the relative magnitude of the special need in comparison to the university's resource base and whether state-level designation is appropriate. Positions related to special allocations that are to be discontinued should be considered in the establishment of new student-faculty ratios.

Alignment of Faculty Salary Averages with Peer Universities

Synopsis of Issue: One feature of the I&R formula of the NFM provides for a unique faculty salary average for each university. These salary averages, which ranged from $47,418 to $55,941 in 1990-91, are intended to reflect the different staffing needs of the universities as they carry out missions with different graduate education and research emphases. Observers from all sides feel that the faculty salary differentials are unfair. Supporters of the universities at the lower end of the salary range feel they are being shortchanged, while advocates of the universities with higher average rates believe that the salary differences do not adequately reflect the different market place in which they compete for faculty.

Documentation: Analyses of regional and national faculty salary studies show that average faculty salaries vary with institutional mission, and universities with the biggest graduate programs pay the highest salaries. In comparison to similar universities by category in the SREB states, Florida's universities ranged from 91 percent to 109 percent of their peer category averages. In a similar comparison using national data for three categories of universities from the AAUP survey, the range was from 91 percent to 119 percent. In both cases, Florida universities that have the most graduate emphasis were the least competitive.

Consultant/Commission Recommendation:

12. The new consensus formula should continue to differentiate faculty salary averages among the universities. The initial

values in the consensus formula should be recalibrated using external comparative data for similar institutions across the nation, and the values should be reviewed periodically.

Funding Provisions for the Needs of "High-Risk" Students

Synopsis of Issue: Various features of the NFM provide differential funding based on identified differences in missions among the universities. Examples include such student characteristics as level, discipline, and part-time enrollment status. One feature of the student services funding formula provides an additional 10 percent to FAMU based on its mission to serve disadvantaged students. No other university receives this supplement regardless of the number of disadvantaged students they serve. FAMU also is the only university that is statutorily able to offer remedial or developmental instruction, but these courses are not eligible for formula funding. The funding process for elementary-secondary education (FEFP) provides supplemental funding for "at-risk" students, and is targeted at dropout prevention efforts and students whose native language is other than English. The basic issue regarding the SUS funding process is whether "high-risk" students impose significantly different resource requirements and, if so, how should their needs be recognized.

Documentation: The ability to identify and count the number of "high-risk" students from readily available data sources is limited. However, using scores on standardized entrance exams, high school grade point averages, and financial aid participation rates as proxy measures, our analysis shows that FAMU's student body includes the highest proportion of "high-risk" students. Considerable variance is observed among the other eight universities.

Consultant Recommendation: The new consensus formula should define "high-risk" students and recognize their needs in both the instruction and student services components. All universities should be eligible to receive these supplements in proportion to their service to "high-risk" students.

Commission Recommendation:

13. The new consensus formula should define "high-risk" students and recognize their needs in both the instruction and student services components. All universities should be eligible to receive these supplements in proportion to their service to "high-risk" students. This recommendation is not intended to expand the number of universities eligible to provide college preparatory instruction beyond those currently authorized in statute.

Funding Equity Between E&G and Special Unit Programs

Synopsis of Issue: Prior to the 1991-92 appropriation, the agricultural and medical-related units at UF and USF were funded by the Legislature as "special unit" budget entities rather than through the E&G appropriation. A specific charge in the legislative proviso to the Commission was to consider the equity of funding for comparable programs provided through the special unit and E&G funding processes. Our analyses focused on agriculture and pharmacy, but the issue also extends to nursing and a variety of other programs in the health-related professions. With the 1991-92 appropriation, the special unit budget entities were discontinued but the special units continue to be separately identified as special line-item components.

Documentation: The NFM recommendations for special units, which were never adopted by the Legislature, specifically provided

preferential funding treatment for instructional programs at IFAS, the UF Health Center, and the USF Health Center. Analyses of SUS expenditure data for agriculture instruction show that FAMU spends more per student than IFAS, perhaps due to institutional priorities at FAMU. (The comparisons do not include the experiment station or extension service at IFAS.) Comparisons of budget data for pharmacy show slightly higher per-student expenditures at UF than FAMU.

Consultant/Commission Recommendation:

14. With the elimination of special unit budget entities, the agriculture and health-related instructional programs at the University of Florida and the University of South Florida should be funded at similar rates to comparable instructional programs in the Educational & General budget. In the development of the consensus formula, however, careful attention should be directed to the assignment of these disciplines into appropriate funding categories.

Provisions in the Library Resources Formula for Unmet Needs

Synopsis of Issue: The NFM library formula, which is derived from a formula developed in the state of Washington, contains two separate provisions -- operations (mostly personnel costs) and resources (books and subscriptions). The resources formula element focuses on maintenance of the collection and is largely driven by the size of the current materials inventory, although occasional special allocations are available to provide for the needs of new programs. The implicit assumption in this process is that the existing library inventories already are equitable with respect to the variance in program needs of the universities. The formula contains no provisions (other than new program supplements) to address possible deficiencies in library collections. University library standards developed by professional groups (e.g., ACRL) and state higher education boards elsewhere prescribe volumes of resources needed per program by level, per student and per faculty.

Documentation: Analyses show that current library resources per FTE student vary considerably (more than 125%) across the nine universities. This variance is believed to result from a variety of factors, including program and mission differences, institutional priorities, and timing (e.g., whether the SUS had sufficient resources when the university either opened or experienced significant programmatic expansion or enrollment growth).

Consultant/Commission Recommendation:

15. The new consensus formula for the library component should specifically include provisions to identify resource needs related to different academic missions.

Number of Discrete Formula Categories

Synopsis of Issue: The NFM contains many components and sub-elements that attempt to address the different needs of the nine universities. In the student services component, for instance, sub-elements consider part-time students, disadvantaged students, and students that receive need-based financial aid. In the I&R program component, separate research staffing ratios are used for each individual discipline although the 32 disciplines are grouped into only three categories for instruction. Four of the program components include special provisions for the needs of branch campus programs. The issue is whether the need for a simpler formula presentation, which would facilitate communication among university system personnel and funding authorities, outweighs the needs to recognize relatively subtle differences in mission with procedures

that redistribute relatively few dollars.

Documentation: Analyses show that four of the nine separate formula components of the NFM collectively account for only 2.8 percent of the total E&G appropriation. Even for the universities that are the principal beneficiaries of these special provisions, the four components combined do not generate more than 5 percent of total funding.

Consultant/Commission Recommendation:

16. The new consensus formula should consolidate the number of separate sub-elements where possible. Separate categories that are created should be consistent with the lump sum flexibility components and should represent a significant dollar volume of resources.

Unique Missions Not Addressed by the Formula

Synopsis of Issue: The purpose of the overall funding process is to distribute available resources in proportion to identified need. Many states find that formulas for colleges and universities are useful for measuring relative need for all but a few unique programs. The NFM follows the national pattern with the formula elements covering about 84 percent of the total E&G budget. The issue regarding formula recognition is two-fold. One aspect is whether any of the existing non-formula provisions should be rolled into an existing formula or become the basis for a new formula component. The second aspect is whether certain missions, which currently are not being separately recognized, should be given greater visibility in the state-level budgeting process.

Documentation: The non-formula allocations in the 1990-91 budget include $3.5 million for museums (UF and FAMU), $3.2 million for radio and television stations (UF, FSU, USF and UWF), $9.4 million for demonstration schools (shifted to the FEFP budget for 1991-92), and $139 million for a variety of special, non-enrollment positions spread across all nine universities.

Consultant/Commission Recommendation:

17. The new consensus formula should seek to include as few non-formula components as possible. At the same time, nonetheless, the new formula should contain new formula categories that recognize significant and costly mission differences.

Equity Of The Fixed Capital Outlay Budgeting Process

Summary Points

- To analyze the equity of capital outlay allocations, the Commission examined both the dollar amount allocated to each university and the number of square feet of space per student and by type of space at each university. The Commission found considerable variation of net assignable square feet per FTE student in total and by type of space, and found that net assignable square feet varied among the universities from 30 percent below to 18 percent above the System average. The differences appear to be attributed to the age of the university, the mission of the university and the enrollment size of the campus.

- The Commission's analysis found little correlation between recent capital outlay allocations for new construction and major renovation and unmet facilities needs.

Use of Space Planning Standards in the Capital Outlay Budget

Synopsis of Issue: Facilities used by colleges and universities across the nation are classified according to their type of space. Separate

reporting categories include such areas as classrooms, teaching labs, offices, and library space. About two-thirds of the states rely on space planning guidelines, such as providing 120 square feet per office or requiring 40 hours of classroom utilization per week, to determine the relative needs of their institutions for facilities construction and renovation. Florida adopted space planning standards approximately twenty years ago when the system was rapidly expanding. In recent years, however, formula-based estimates of facility needs have not played a central role in the development of SUS capital outlay budgets. A SUS task force recommended adoption of a revised space planning/facilities budgeting formula several years ago, but no action was taken.

Documentation: Our analyses show a considerable variation of net quantitative square feet per FTE student in total and by type of space. A 1989 work paper prepared by SUS staff indicates that the universities vary from 62 percent to 107 percent of formula-estimated space needs that were met. Our analyses of recent capital outlay allocations for new construction and major renovation show little relation to unmet facilities needs.

Consultant/Commission Recommendation:

18. The Board of Regents should place greater emphasis on the use of objective space planning guidelines and formulas in the development of its capital outlay budgets for the State University System.

Space Planning Standards that Reflect Trends in Program Needs

Synopsis of Issue: A familiar precept in facilities planning is that "form follows function." That is, space should be planned to respond to the specific intended uses. Higher education space planning standards have attempted to respond to this principle by having separate formulas for each of several types of space. For instance, classroom and research laboratory space standards often vary by discipline. Most formulas were developed in the late 1960s and early 1970s when enrollments were rapidly expanding as the baby boom generation reached college age. Over the past twenty years, the nature of colleges and universities has changed considerably with more part-time students, larger class sizes, the advent of computer technology for instruction, research and library services, new health and safety regulations, etc. The issue is whether 1970-era space planning standards continue to match the functions of the university in the 1990s. The problem is especially acute in planning for medical education facilities.

Documentation: The three tiers of the California higher education community joined several years ago to reconsider the appropriateness of that state's space planning standards. Research space allowances and classroom utilization standards were particular concerns. Higher education facilities planning also is receiving renewed attention at the federal level.

Consultant/Commission Recommendation:

19. The State University System should revise its space planning standards to take into account the changes in program delivery methods that have taken place over the past 20 years.

Planning for Facilities to Accommodate Projected Enrollment Growth

Synopsis of Issue: The number of Florida high school graduates is projected to expand significantly over the coming decade. Both the community colleges and the SUS are preparing to deal with an expected surge of students. Also during the past couple of

years, the Commission and the SUS have become concerned about the overall low participation rates in baccalaureate and graduate level education in Florida in comparison to other states. One response to this concern is the plan to build a new university in southwest Florida. If the SUS receives funding to respond to both the increase in high school graduates and to achieve higher participation rate goals, university enrollments will grow by over 50,000 students. This level of enrollment growth will have considerable impact on the need for new facilities.

Documentation: The 1991 Commission report on criteria for new colleges and universities suggested that SUS enrollments should grow by 48 percent over the next thirty years. Using the average net assignable square feet per FTE student at the three newest SUS campuses, analyses show that 4.5 million square feet of additional space, at an estimated cost of nearly $500 million, would be required to handle this enrollment growth.

Consultant/Commission Recommendation:

20. The Board of Regents should develop a long-range program to provide space for the projected growth in enrollment demand in the State University System. The program should require efficient space planning standards, consider the relative priority between instructional space and research and support space, and address the relative priority between new construction and renovation.

Consolidation of Capital Outlay Funding Sources

Synopsis of Issue: Funding for SUS capital outlay projects comes from several different sources, including the Public Education Capital Outlay (PECO) Trust Fund created by utility taxes, the General Revenue Fund, the Educational Enhancement Trust Fund (the lottery) and a portion of student fees which is designated for facilities. Different planning and budgeting procedures are followed depending on the source of funds and the type of facility. Compared to the considerable review devoted to creating priority lists for PECO, general revenue and lottery funded projects, student fee-funded projects are regarded more as institutional prerogatives. For the E&G budget, most student fees are combined with the general revenue and lottery appropriations for distribution among the nine universities according to system-wide priorities. The issue is whether the student fee funding source should be considered available to address broader statewide priorities.

Documentation: Our analyses indicate that about 23 percent of total SUS capital outlay funds in recent years have come from student fees. Also, funding has tended to stay on the campus where it was collected regardless of system-wide priorities.

Consultant Recommendation: All general sources of capital outlay funds in the State University System should be consolidated and allocated according to system-wide priorities for all types of space.

Commission Recommendation:

21. Capital Improvement Trust Fund fees should continue to be reallocated to the institutions where they are collected.

Conclusions

Separate funding formulas exist for the E & G budget of the SUS that emphasize the dissimilar goals of the Board of Regents and the Legislature for the System. A new consensus funding formula is needed for the SUS that will incorporate the use of long-term normative standards and funding goals for the System, the grouping of disciplines that are

based on documented differences in instruction and research staffing practices in the disciplines, and the funding needs of all major support program components.

There are at least 18 components in the BOR's New Funding Methodology (NFM) that account for considerable variance in funding per FTE student across the nine universities. Although the actual allocation was not totally based on the NFM, the 1990-91 allocation analyzed by the Commission found that Florida A & M University (FAMU) had an adjusted allocation per planned enrollment based on formula calculations that was 16.8 percent above the System average while the University of Central Florida (UCF) had an adjusted allocation that was 7.1 percent below the System average. The analysis further found that a significant portion of FAMU's funding (approximately 15 percent) was attributed to the "hold harmless" provision and was not based either on formula generation or other special allocations.

The issue of funding equity was also examined by an analysis of funding variations within the SUS over a ten year period. Funding per FTE student for each of the nine major budget components (e.g., instruction, library, etc.) and the total for each university and for the System average was calculated for 1981, 1986 and 1991, and separate calculations were performed using both planned and actual FTE enrollments. The analysis found that FAMU and Florida Atlantic University were funded above the System average for each of the three years for both enrollment calculations. The University of Central Florida was the least funded and was the furthest below the System average for each of the three years for both enrollment calculations.

In an analysis of the equity of funding for comparable programs provided through the special unit and the E & G funding processes, the Commission found that funding for programs with special unit status at the University of Florida was higher than that for similar programs in the E & G budget at FAMU. The differences in funding levels appear to be the cumulative results of different institution missions and program roles, BOR formula policy differences and, in certain instances, greater appropriations support by the Legislature.

In its examination of the equity of capital outlay allocations, the Commission found considerable variation across the SUS of net quantitative square feet per FTE student in total and by type of space, and little relation of allocations for new construction and renovations to unmet facilities needs. More objective space planning formulas are needed, as well as a long-range program that will plan for the additional space needed to support the projected enrollment growth in the SUS.

Appendix A

OFFICE OF THE AUDITOR GENERAL PRESENTATION ON THE CONSULTANT'S REPORT

STATE OF FLORIDA

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OFFICE OF THE AUDITOR GENERAL

PRESENTATION ON THE CONSULTANT'S REPORT ON THE

PEPC STUDY OF THE STATE UNIVERSITY SYSTEM FUNDING PROCESS

AS REQUIRED BY PROVISO LANGUAGE

TO ITEM 577A OF THE 1991-92 GENERAL APPROPRIATIONS ACT

POSTSECONDARY EDUCATION PLANNING COMMISSION PLANNING COMMITTEE

MEETING OF JANUARY 15, 1992

Background

Line item 577A of the 1991-92 General Appropriations Act included proviso language requiring a study be performed by the Postsecondary Education Planning Commission to evaluate the funding formulas used by the legislature and the Board of Regents for assessing the needs of universities and allocating funds among them. Specifically the proviso language states:

> **Postsecondary Education Planning Commission shall conduct a study of the process used by the Board of Regents for developing its legislative budget request as well as the process used by the Board of Regents for allocating appropriations among the universities. As a part of this study the Postsecondary Education Planning Commission shall evaluate the legislative funding formulas as well as the various formulas within the Board of Regents new funding methodology. These generational formulas shall be compared to actual expenditures. The study shall include an assessment of the extent to which funds are allocated on an equitable basis for comparable programs across the State University System, including the special unit entities. The study shall also assess the extent to which the need for facilities is being addressed on an equitable basis for each university. To the extent that necessary supporting data are available, the study shall examine allocation patterns and practices over a period of**

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years. All supporting information provided as a result of this study shall be reviewed by the Office of the Auditor General. The Postsecondary Education Planning Commission shall submit a report of its findings to the Governor, the President of the Senate and the Speaker of the House of Representatives on or before January 15, 1992.

As indicated in the proviso language, this Office was required to review the supporting information provided as a result of the study. The supporting information consisted of various schedules and analyses prepared by the consultant retained by the Commission to conduct the study. We did not perform an audit or a compilation, as defined by generally accepted auditing standards, of the data presented in the consultant's report. Audit or compilation procedures were not required by the proviso language. However, we did review the methodology used by the consultant in gathering the data and verified the mathematical accuracy of the data presented in the various exhibits included in the consultant's report. The remarks included in this presentation are based on the preliminary draft of the consultant's report provided to us on December 5, 1991.

The educational and general activities of the various universities within the State University System are funded by Legislative appropriations from the State's General Revenue Fund, the State University System Educational and General Incidental Trust Fund, and the Educational Enhancement Trust fund. The Legislative appropriations are made to the Board of Regents which allocates them among the universities based on formulas which consider numerous factors. The universities also receive allocations for certain programs funded outside of the educational and general budgets, termed "Special Unit Budgets," and for fixed capital outlay projects. The special units receive funding from a variety of sources, with State funds allocated on a programmatic rather than a formula basis. Fixed capital outlay projects are also funded from several sources, with the primary source of funds being the Public Education Capital Outlay (PECO) Trust Fund.

The funding formulas used by the Board of Regents as the basis for the allocation of funds differ from the formulas used by the legislature to assess the funding needs of the State University System. In evaluating

whether funds are allocated equitably among the universities for comparable programs, the Commission was charged with a responsibility for evaluating both sets of formulas and comparing the results of both to actual expenditures.

The results of our review of the data presented and procedures used by the consultant in preparing the draft report are presented below.

Review of the Consultant's Draft Report

The Board of Regents was the primary source of information used in the consultant's draft report. This information consisted primarily of enrollment, expenditure, and facility square footage data for the nine universities for the 1990-91 fiscal year and information used by the Board of Regents for the allocation of funds among the universities.

As set forth in the proviso language, our review was limited to the supporting information provided as a result of the study. We have reviewed the sources of data used by the consultant in his evaluation and the mathematical accuracy of the presentations of data included in the report. We have assessed the reasonableness of the sources of data used, but we have not audited the data derived from those sources. We have not attempted to confirm the results generated by the application of the funding formulas to the data compiled by the consultant and to the conclusions drawn by the consultant as a result of that process.

Although many of the exhibits included in the consultant's draft report did not include references to the specific sources of the data contained therein, we were able to assess the reasonableness of the data presented in terms of a listing of data sources provided to us by separate memorandum. We believe that the inclusion of such references in the final report would enhance the ability of the reader of the report to evaluate the data presented.

While the expenditure data utilized by the consultant appears to have been properly extracted from analyses of expenditures provided by the Board

of Regents, we do have a concern regarding the quality of the functional breakdown of the expenditures presented in the analyses, since these functional breakdowns are based, in part, on activity reports prepared by faculty members to indicate time spent on various categories of activities. These reports are used to distribute costs to functional classifications, such as instruction or research.

Faculty activities include teaching, conducting research, and performing university and public service. The common document used in the university environment to allocate faculty cost is the faculty activity report. This report distributes salaries to activities by systematically estimating the percentage of effort each faculty member performs on each activity. Each faculty member completes an activity report on which he/she estimates the amount of time or effort expended on each activity during the time-frame represented by the report. Individual activity reports are aggregated at the departmental or college level and all expenditures are then allocated on the basis of the aggregate of the faculty effort. Decisions as to how each faculty member allocates time is at the discretion of the faculty member, subject to review by the member's Dean or other supervisor. Consequently, cost data prepared on this allocation system are only estimates and should not be considered precise.

Subject to the above remarks, our review of the consultant's draft report indicates that the sources of information used by the consultant were appropriate and reasonable and that the presentations of data were mathematically correct. Since the functional classifications of expenditures were presented primarily for purposes of comparisons (among the universities, among various fiscal years, and between the two funding methodologies) and appear to have been used uniformly in assessing the results of the funding formulas, we anticipate that reliance by the universities on faculty activity reports would not significantly alter the results of the evaluations and the conclusions drawn by the consultant.

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